

Is the Federal Reserve Neglecting Black Workers in the Economic Rescue?

A Fed Up Campaign Fact Sheet

The United States is experiencing a surge of activism not seen for decades as communities demand accountability in the wake of the killing of George Floyd by a police officer in Minneapolis. This racial reckoning comes against the backdrop of the COVID-19 pandemic and the stark social disparities that it has revealed, calling on policy makers to directly address concerns about structural racism and the economic inequalities that it creates. The pandemic is also making pre-existing racial disparities worse. For example, unemployment in June for white Americans fell to 12.4% while it continued to rise to 16.8% for Black Americans.¹

As the Federal Reserve (the Fed) plays a central role in the economic rescue, Fed Chair Jerome Powell has acknowledged the urgency of addressing racial inequality in the US and pledged that “there is no place at the Federal Reserve for racism” and that “the Federal Reserve serves the entire nation.”²

However, this fact sheet points out serious inequities in the Fed’s overall economic rescue efforts to date that will exacerbate racial inequality, and highlights how the Fed’s policy choices regarding its municipal lending program are badly undermining even its modest efforts to help Black workers.



Where is the Fed Concentrating Its Economic Rescue Resources?

Since the beginning of the COVID-19 induced economic crisis, the Fed has deployed its existing policy tools to push back against the recession, including slashing interest rates and broadening a range of existing lending facilities.³ But the core of the Fed's rescue effort came with the April 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act, which authorized up to \$4.5 trillion in new Fed lending capacity.⁴ To date, the Fed has announced lending programs that are designed to use \$1.95 trillion of this capacity.⁵

The bulk of this CARES Act lending prioritizes support for financial markets and private corporations over lending with a more direct public benefit, such as lending to state and local governments.



Only one-quarter of the Fed's lending capacity authorized under the CARES Act is dedicated to more directly helping the public through lending to their state and local governments by the \$500 billion Municipal Liquidity Facility (MLF).⁹

As of June 18th 2020, **three quarters** of the Fed's lending capacity authorized under the CARES Act has been dedicated to financial market and corporations, including:

- \$500 billion Primary Market Corporate Credit Facility, which buys newly issued corporate bonds.
- \$250 Billion Secondary Market Corporate Credit Facility, which buys previously issued corporate bonds and exchange-traded funds.
- \$600 billion Main Street Lending Program, which backs loans to businesses with up to 15,000 employees.
- \$100 billion Term Asset Lending Facility, which makes loans to companies secured by consumer or business loans.⁸

How Does Neglecting Municipal Lending Make the Crisis Worse for Black Communities?

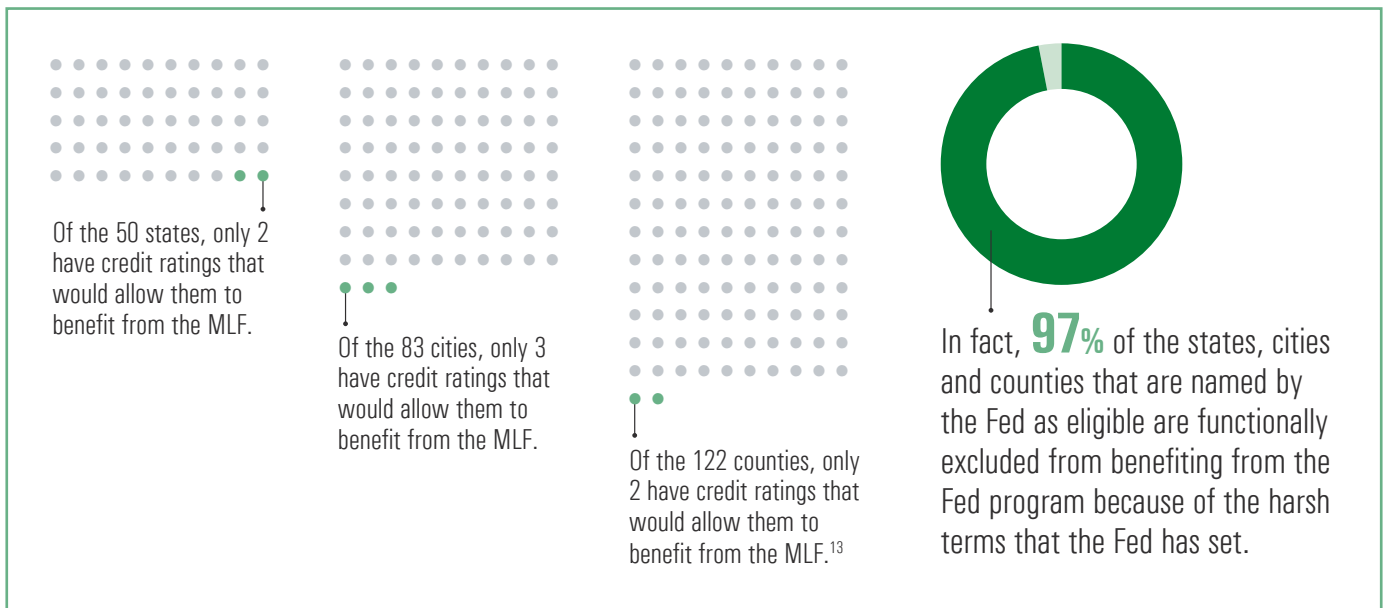
State and local governments are facing historic budget shortfalls as a direct result of revenue lost because of the COVID-19 crisis, and massive public sector layoffs are expected if these budget gaps cannot be filled. Those layoffs will have a disproportionate impact on Black workers.

- **A recent analysis by the Center on Economic and Policy Research reveals that “the workers who lose their jobs as a result of layoffs in the public sector are 20 percent more likely to be Black than workers who lose their jobs in the private sector.”⁶ And these jobs are especially important to the economic well-being of the Black community because “Black workers face less wage discrimination in the public sector than in the private sector and the jobs are comparatively well paying.”**
- Black retirees would be much more affected than the retirees as a whole if state and local governments declare bankruptcy and cut pensions of retired state and local employees.⁷

How are Fed Policy Choices Rendering Its Support for Cities and States Ineffective?

In addition to prioritizing support for financial markets and private corporations over state and local governments, the Fed has made policy choices that render its municipal support program ineffective, even by its own standards. The crisis in local government budgets is one of the defining problems of the pandemic recession. By some estimates, it will take at least \$500 billion to make up the budget gap facing state and local governments but the shortfall could end up being *twice as much*.¹⁰ While the Fed's MLF was intended to provide vital assistance to struggling local governments and their communities, most local governments are functionally excluded as a result of terms set by the Fed that are unusually expensive and restrictive.

- According to a recent analysis by the Fed Up Campaign, 97% of the 255 cities, states, and counties named as eligible for the Fed's municipal lending program are unlikely to benefit because of the harsh terms the Fed has set. This means that local governments facing surging demand by residents—needing both essential services to address an unprecedented health crisis and an economic lifeline to get through a historic recession—will face high barriers to accessing key Fed lending support.¹¹ As a result, much of the \$500 billion in lending capacity—and the jobs that it can save, especially for Black workers - will go unused. Tellingly, as of a June 2020 Congressional Oversight report, the MLF has made only a single purchase of \$1.2 billion in notes from a single state.¹²



- The Fed's assertion that the failure of the MLF to actually lend is a mark of the program's success because, according to the Fed, it was intentionally designed to be a lender of last resort and serve as a floor under the municipal bond markets, are incorrect and not justified by the data.

Bond markets have resumed some level of activity since they shut down in the early days of the crisis, however, the data shows insufficient increases in recent issuance volume across all levels of credit quality and a continued crisis for issuers with lower credit quality. Even a recent analysis by the Federal Reserve Bank of New York notes that the level of bond issuance activity across all classes of credit quality is nowhere near the level that local fiscal distress requires, and "improvements in muni debt markets are not necessarily sufficient to induce willingness to spend at the local level."¹⁴

How Does The Fed's Overall Corporate Focus Impact Racial Inequities?

The Fed has chosen to focus three-quarters of its rescue resources on supporting financial markets and private corporations. While the intent is to help the overall economy and protect against job loss, the greatest and most immediate benefit will accrue to owners and shareholders, who are mostly white and disproportionately wealthy, and are much less likely to directly benefit communities of color.¹⁵ This leaves struggling local governments and workers of color behind.

Recent analysis has shown that:

- **Less than 14 percent of families in the US directly own corporate stock. Share ownership mirrors broader inequality in this country, with shareholders being much more likely to be wealthy and white.**¹⁶
- **As of late 2019, 92.1% of corporate equity and mutual fund value was owned by white households, while Black and Latinx households only owned 1.5% and 1.9%, respectively.**¹⁷

These stark numbers—which are the direct result of historical policies promoting wealth stripping of Black communities and wealth concentration in white communities—demonstrate the ways in which the Fed's stimulus is failing to reach most Americans and exacerbating inequality.

What Should the Federal Reserve do in the Short Term About the Neglect of Black Workers in Its Rescue Effort?

The United States must confront major issues in its economic policies to begin to address the systemic racism in our economy. Organizations such as the Institute for Policy Studies, among others, have laid out a strong approach that includes income support that expands to guarantee income, universal healthcare that decouples health care from a job, expanding inclusive housing and ownership, guaranteeing a living wage, and baby bonds.¹⁸

In the short term, the Federal Reserve, under its existing authority, must take immediate steps to make its economic rescue more racially equitable, including:

- **Ensuring that the Fed's MLF is fixed and the much-needed resources are actually distributed by implementing a set of urgent changes included in the Heroes Act¹⁹ and in the Uplifting our Local Communities Act.** These changes include:
 - Setting the cost of lending at the low Federal Funds Rate.
 - Extending the lending term from three to ten years.
 - Removing the requirement that borrowers first be turned down by the private market.
 - Expanding the number of localities eligible to borrow.
- **Conducting a racial equity audit²⁰ of the impact of the Fed's emergency COVID-19 lending packages that assesses whether the MLF and other Fed lending programs are either addressing or exacerbating racial inequalities.**

Endnotes

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- 6 Hayley Brown and Dean Baker, “Cutting State and Local Budgets is an Attack on the Country’s Black Workers,” Center for Economic and Policy Research, June 16, 2020, <https://cepr.net/cutting-state-and-local-budgets-is-an-attack-on-the-countrys-black-workers/>.
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- 11 Benjamin Dulchin and Maggie Corser, *Aiming to Underachieve: How a Federal Reserve Lending Program for Local Governments is Designed to Fall Short* (Center for Popular Democracy, June 2020), <https://populardemocracy.org/sites/default/files/Aiming%20to%20Underachieve%20-%20Fed%20Up%20White%20Paper%20June%202020.pdf>.
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